

MASS. SAI.2:IN 2/ BE45/3



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON 02108

A. JOSEPH DeNUCCI
AUDITOR

(617) 727-6200

NO. 99-4390-3

INDEPENDENT STATE AUDITOR'S
REPORT ON THE ACTIVITIES
OF THE
BERKSHIRE COMMUNITY ACTION COUNCIL INC.

OFFICIAL AUDIT REPORT

APR 27 2000

ISSUED BY THE
Department of the State Auditor

INTRODUCTION

1

The Berkshire Community Action Council, Inc. (BCAC) is a private non-profit corporation established on December 8, 1966 as part of a nation-wide community action network, to provide assistance to low-income persons residing in Berkshire County. BCAC derives the majority of its funding through social service contracts with the Commonwealth of Massachusetts and the Federal government. These funds totaled more than \$5.8 million during our audit which covered the period October 1, 1996 through September 30, 1998. Our audit objectives were to determine whether BCAC had implemented effective management controls, and to assess BCAC's business practices and it's compliance with applicable laws rules, and regulations as well as the various fiscal and programmatic requirements of its state programs and contracts. This audit identified at least \$66,870 in undocumented and unallowable costs as well as other administrative deficiencies, as described below:

AUDIT RESULTS

4

1. Undocumented Payroll Costs Totaling \$56,329 Charged to State Contracts and Federal Grants:

4

We found that during fiscal year 1998, BCAC charged \$28,046 in payroll costs against state contracts and an additional \$28,283 in payroll costs against its Community Service Block Grant (CSBG) for which it has no documentation to substantiate that these payroll costs were actually incurred. According to state regulations and the terms and conditions of its CSBG, expenses such as these that are undocumented are unallowable.

2. Undisclosed and Questionable Related-Party Transactions: Our audit revealed that, contrary to state regulations, BCAC did not accurately disclose several related-party transactions. The President of BCAC's board of directors was also President of the other two other non-profit organizations; Community Services of Southern Berkshire Inc. (CSSB) and Your Community Shop Inc. (YCS) that conducted business with BCAC. Additionally, the Regional Director of BCAC's south county operations was also the Executive Director of these two other related parties. Although BCAC conducted business with the two other entities, these related party relationships were not disclosed in BCAC's financial statements. As a result, the Commonwealth was not provided with all the information it needed to adequately assess BCAC's activities. In response, BCAC initiated steps to clarify and define within the first quarter of FY 2000, the relationships between its northern and southern offices in recognizing the roles of its related parties and reorganizing its financial statements to reflect the activity of its operations.

8

3. Unallowable and Undocumented Loans Totaling \$10,541 Provided to BCAC's Former Executive Director: Our review of BCAC's payroll records noted that between the period December 1994 and February 1997 BCAC's former Executive Director received \$10,541 in loans from the agency. BCAC's Board President considered the additional payments made to the former Executive Director as vacation advances. However, since the former Executive Director received her normal week's pay without interruption and these advances were not repaid during the subsequent week's payroll, these advances were, in fact, loans given to the former Executive Director. According to state regulations, fringe benefits such as these are non-reimbursable under state contracts. As of September 30, 1998 BCAC's financial records indicated that \$4,039 of these loans to the former Executive Director remained outstanding. Furthermore, the loans were not recorded as a receivable in BCAC's financial records and

12

therefore increasing the likelihood of the loans going unnoticed and uncollected. In response, BCAC was able to recover \$4039 paid to its former Executive Director during FY 1999.

4. **BCAC's Management Practices Requires Improvement:** Sound business practices advocate that an organization employ management practices that ensure that agency goals and objectives are met in the most economical and efficient manner; assets are properly safeguarded; and transactions are properly authorized, reported, and recorded. However, BCAC's administrative staff in many cases did not exercise sound business judgment in their management of BCAC. For example, BCAC's administrative staff did not establish an adequate system of internal controls because they: didn't have written lease agreements for the rental of space at three sites that cost \$34,792 annually to rent; had deficiencies with their accounting system because journal entries were not adequately supported; did not have a formal plan to allocate common costs which amount to approximately \$105,000 annually; and allowed employees, board members, and their relatives to benefit from the FEMA program that BCAC administers. As a result, the Commonwealth cannot be assured that BCAC's assets were properly safeguarded or that BCAC's state-funded program services were provided in the most effective and efficient manner. Subsequent to our audit, BCAC initiated action to improve upon its management practices in the areas cited. However, it should take appropriate action and secure property leases as recommended for all its rental property where no formal arrangement presently exists.

14

INTRODUCTION

Background

The Berkshire Community Council, Inc. (BCAC) is a private, non-profit corporation established in 1966 as part of a nation-wide community action network. In Massachusetts, this network is composed of twenty-five (25) community based nonprofit organizations designated by the Secretary of the United States Department of Health and Human Services and the Director of the Massachusetts Department of Housing and Community Development to serve as Community Action Agencies (CAA's).

As a designated Community Action Agency, BCAC is mandated to develop, implement, coordinate, and evaluate the effectiveness of a variety of programs, services, and activities that appropriately address the needs of low-income people in their respective designated service or target area which in BCAC's case, is the Berkshire County region.

During the period of our audit, BCAC operated a number of social service programs as follows:

Low Income Home Energy Assistance (LIHEAP): This program is intended to help defray the cost of heat of homes of low-income people. This program is funded by the U.S. Department of Health and Human Services (HHS) through the Department of Housing and Community Development (DHCD).

Federal Emergency Management Agency (FEMA): This federally funded program provides one-time emergency assistance such as payment of rental arrears for those facing eviction, utility assistance to those in imminent danger of shut-off or food assistance for those who have no other resources.

HEARTWAP: This program provides cleaning, tuning, and evaluation of oil and gas heating systems in order to improve efficiency. There are also preventative maintenance, emergency, and replacement components of the program. Funding is provided by HHS through DHCD.

Emergency Shelter: BCAC's shelter, called Our Friends House, provides emergency shelter for families as well as a number of other services such as GED preparation, adult literacy, parenting skills, housekeeping, etc. Funding is provided by HHS through the Department of Transitional Assistance (DTA).

Homeless: This program provides advocacy, housing search, landlord and utility shut-off mediation, and operates a revolving rent and emergency assistance loan pool for homeless and the prevention of homelessness. It also provides relocation assistance to tenants displaced by city code enforcement. Funding is provided by the U.S. Department of Housing and Urban Development (HUD) through the City of Pittsfield.

Transportation: BCAC offers van service to provide transportation, primarily for Department of Mental Retardation (DMR) consumers. Funding is provided by DMR and local day care providers.

Share: A privately operated program, which provides discount priced food to participants who provide community service work.

During the period of our audit, BCAC received its funding from a variety of sources as indicated in the table below:

Berkshire Community Action Council, Inc.
Summary of Revenue
Fiscal Years Ended September 30, 1997 and 1998

<u>Revenue Source:</u>	<u>Fiscal Years</u>	
	<u>1997</u>	<u>1998</u>
Department of Mental Retardation	\$ 560,791	\$ 554,573
Department of Transitional Assistance	168,187	179,788
Department of Housing and Community Development	1,944,866	1,892,853
Other Government Fees	5,929	4,431
Grants	82,672	86,046
Client Fees	14,171	10,796
Other Revenues	136,391	149,384
Contributions, Gifts, Special Events	<u>27,183</u>	<u>49,779</u>
Total Revenue, Gains, and Other Support	<u>\$2,940,190</u>	<u>\$2,927,650</u>

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various fiscal and administrative activities of BCAC for the period covering October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included such audit procedures as we considered necessary to meet our audit objectives.

Our specific objectives were to:

1. Determine whether BCAC had implemented effective management controls, including its processes for planning, organizing, directing, and controlling program operations; and policies and procedures to ensure that resources are safeguarded and efficiently used.

2. Assess BCAC's business practices and it's compliance with applicable laws, rules, and regulations, and it's own internal practices and procedures as well as the various fiscal and programmatic requirements of its state contracts and federal programs.

In order to achieve our objectives, assessed the system of management controls established and implemented by BCAC over its operations. The purpose of this assessment was to obtain an understanding of management's attitude, the control environment, and the flow of transactions through BCAC's accounting system. This assessment was used in planning and performing our audit tests. We then examined billings, invoices, and other pertinent financial records to determine whether expenses incurred under its state contracts were reasonable; allowable; allocable; properly authorized and recorded; and in compliance with applicable laws, rules and regulations. Our special-scope review was not made for the purpose of forming an opinion on BCAC's general-purpose financial statements. We also did not assess the overall quality and appropriateness of program services provided under its state-funded programs.

A very faint, light gray watermark-like image of a classical building with four prominent columns is visible in the background.

Digitized by the Internet Archive
in 2014

https://archive.org/details/independentstate00mass_0

AUDIT RESULTS

1. Undocumented Payroll Costs Totaling \$56,329 Charged to State Contracts and Federal Grants

We found that during fiscal year 1998, BCAC charged \$28,046 in payroll costs against state contracts and an additional \$28,283 in payroll costs against its Community Service Block Grant (CSBG) for which it has no documentation to substantiate that these payroll costs were actually incurred. According to state regulations and the terms and conditions of its CSBG, expenses such as these that are undocumented are unallowable. The specific problems we identified in this area are discussed below:

A. Undocumented Payroll Costs Totaling \$28,046 Charged by BCAC Against its State Contracts: For fiscal years 1997 and 1998, the state's Department of Transitional Assistance (DTA) awarded BCAC a cost reimbursement contract with an annual maximum obligation of \$171,921 to fund its emergency shelter known as Our Friend's House. The state's Operational Services Division (OSD) defines cost reimbursement under 808 Code of Massachusetts Regulations (CMR) 2.02 as a payment arrangement under which the purchasing agency reimburses the provider for budgeted costs actually incurred in rendering the services specified in the agreement to a stated maximum obligation. Also, the state's Executive Office of Administrative and Finance has established the General Conditions of the Master Agreement for Social Service Contract under 808 CMR 2.00 [General Contract Conditions] with which all contracted human service providers such as BCAC must comply. According to these General Contract Conditions, BCAC is required to maintain accurate and complete financial records, including payroll records, in order to receive reimbursement of its costs. Specifically, Section VI (c) (2) (d) of the state's General Contract Conditions states, in part:

The Provider will maintain personnel records for each employee. These records shall include but not be limited toPayroll records, and time and attendance records or effort reports, documenting program assignment and hours and days worked.

During the final contract month of June 1997 and 1998, BCAC's Fiscal Manager prepared a monthly invoice billing DTA for personnel costs that the agency represented it had incurred during these months to operate Our Friend's House. The former Executive Director certified these invoices as being accurate. In

addition to the invoice, BCAC also submitted a Monthly Expenditure Report (MER) and a Personnel Summary Report (PSR) to substantiate the cost reimbursement. The MER supports the invoice by providing the total program cost by budget line item. The PSR provides further detail on specific monthly personnel costs summarized on the MER. BCAC's Fiscal Officer certified the MER indicating that the agency had available for review, the actual bills and supporting documentation for the reported expenditures. However, we found that although the amounts BCAC submitted on its invoices for these two months agreed to the respective MER's, the amounts on the MER's did not agree with the personnel costs detailed on the two PSR's as follows:

Comparison of Wages on Monthly Expenditure and Personnel Summary Reports
For the Months of June 1997 and June 1998

<u>Period</u>	<u>MER Personnel Costs</u>	<u>PSR Personnel Costs</u>	<u>Difference</u>
Month of June 1997	\$19,416	\$ 6,839	\$12,577
Month of June 1998	<u>22,537</u>	<u>7,068</u>	<u>15,469</u>
Total	<u>\$41,953</u>	<u>\$13,907</u>	<u>\$28,046</u>

BCAC officials told us that the MER's they submitted to DTA were accurate, however these officials were unable to reconcile the differences between the personnel costs on the MER and PSR report. Moreover, BCAC's own payroll records reconciled to what the agency reported on its PSR, further supporting the fact that the agency received excessive reimbursement for personnel costs from DTA during there two months. BCAC officials told us that some fiscal year end adjustments had been made to the general ledger (the source for the financial data reported on the MER), but that the detail to support the adjustments was not available.

Auditee's Response: In response to item 1A BCAC officials stated, in part:

We agree that there was a clerical issue in how the Personnel Summary Report (PSR) reporting form was prepared in the years in question. The issue was that on the PSR's the amount detailed in the sixth column, "less offsetting support" overstated the true percent or amount of offsetting funds which BCAC was required to fund from non-DTA sources in support of this program. The offset percentage used was calculated a number of years ago

when the percent of offsetting support applied against the actual costs of running the shelter were considerable higher. The purpose of the offsetting support percentage is to reduce the portion of shelter salaries that DTA reimburses for as agreed upon in the budget to the contract. All salaries shown on the Monthly Expenditure Reports were for shelter employees, which were documented by payroll records. The "offsetting support" column is only a billing mechanism to limit the DTA's share as budgeted. By overstating the offsetting support on the PSR each month, which BCAC must fund from other sources, we actually underbilled DTA on the monthly invoices. Consequently, BCAC did not request nor receive an amount equal to or approximately equal to 1/12th of the allowed cost reimbursement amount for salaries in each of its monthly billings. This was adjusted for at the end of each contract year in the June billing. Therefore, this makes the June billings appear overstated.

Auditor's Reply: Our audit clearly identified billing problems regarding personnel costs that the agency charged to its Shelter program. These problems occurred at the end of the contract period during June 1997 and June 1998 when BCAC billed the remaining balances available in the contract's Direct Care/Program Support Staff line items. As stated in our report, these billings resulted in undocumented payroll costs of \$28,046 being reimbursed by the DTA contract that funds its Shelter program. In its response, BCAC's states that it inadvertently overstated offsetting revenues that it used to reduce DTA's reimbursement for the Shelter program on its monthly billings, and adjusted for that on its final billings for the two fiscal years. However, BCAC did not provide us documentation to substantiate this fact or an explanation as why it hadn't rectified the problem it claimed to have identified in the prior fiscal year. To the contrary, budget documents that BCAC provided to the audit team during the conduct of audit fieldwork, indicated that donations and HUD CSBG funds would be sufficient enough to offset the shelter program payroll costs. Moreover, BCAC's fiscal 1998 UFR reported unrestricted revenue of Contributions, Gifts, Legacies and Bequests amounting to \$49,779. The UFR also reported that BCAC received CSBG monies from HUD amounting to \$280,543. This indicates that the agency collected sufficient offsetting revenue during the period to use, as it had previously designated, to offset the cost to the DTA contract.

In its response, BCAC states that because the offsetting revenue was overstated, BCAC underbilled DTA on monthly invoices and hadn't requested a received "an amount equal to or approximately equal to 1/12th of the allowed cost reimbursement amount for salaries in each of its monthly billings."

However, to date, BCAC has failed to sufficiently document these facts. As such, the appropriate agencies should seek reimbursement from BCAC for the \$28,046 of undocumented payroll costs we identified during our audit.

B. Inadequate Reporting Of Employee Wages Resulted In BCAC Overbilling Community Service Block Grant [CSBG] Contract By \$28,283: BCAC's is required by the terms and conditions of its CSBG contract agreement to expend funds in accordance with its approved budget and in accordance with OMB Circular A-122 and A-110. In this regard, OMB A-122 requires the following documentation to support expenditures for salaries and wages:

Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official[s] of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports...except when a substitute system has been approved in writing by the cognizant agency.

We compared the wages BCAC charged against the CSGB provided by DHCD on the its fourth quarter reports for fiscal years 1997 and 1998 to the agency's payroll records. This comparison indicated that BCAC reported wages \$28,283 greater than it actually incurred according to its payroll records. The differences are summarized in the following table:

Comparison of Wages Reported in Quarterly Reports to Agency Records

Two Fiscal Years Ending September 30, 1998

<u>Period</u>	<u>Wages Reported to DHCD on Quarterly Reports</u>	<u>Wages Paid Per Agency Records</u>	<u>Difference</u>
October 1997 – September 1998	\$161,115	\$153,049	\$ 8,066
October 1996 – September 1997	<u>160,818</u>	<u>140,601</u>	<u>20,217</u>
Totals	<u>\$321,933</u>	<u>\$293,650</u>	<u>\$28,283</u>

When we brought this matter to BCAC officials, they were unable to provide us documentation to reconcile these payroll discrepancies. These officials did say that some fiscal year end adjustments had

been made to the general ledger (the source for the financial data reported to DHCD), but that the detail to support the adjustments was not available.

Auditee's Response: In response to item 1B, BCAC officials stated, in part:

General ledger printouts show adjustments, which cannot be reflected on payroll records, to balance out contracts to proper accounts.

Additional wages were allocated by journal entries to CSBG contracts for personnel originally included in the CSSBG approved budgets.

Auditor Reply: Regardless of whether the agency's automated payroll records cannot show payroll adjustments that are made to the general ledger, BCAC must be able to substantiate, with appropriate supporting documentation any payroll adjustments made to its general ledger. While conducting the audit we made several attempts to obtain backup for these payroll adjustments. However, to date, BCAC has not been able to provide us with this information. Consequently, the appropriate agencies should seek reimbursement for the \$28,283 of unsupported payroll costs we identified in this program during our audit.

Recommendation: BCAC should remit to the appropriate state and federal agencies the \$56,329 in payroll costs that it billed against state contracts and federal grants for which it has no documentation. In the future, BCAC should make sure that it only bills for payroll costs that it actually incurred and can document.

2. Undisclosed And Questionable Related-Party Transactions

Our audit revealed that, contrary to state regulations, BCAC did not accurately disclose several related-party transactions. As a result, the Commonwealth was not provided with all the information it needed to adequately assess BCAC's activities.

The state's Operational Services Division (OSD) requires nonprofit organizations such as BCAC that contract with the Commonwealth and are subject to the OSD's financial statement filing requirements to disclose related-party relationships and transactions in the notes to their financial statements. A related party is defined in 808 CMR 1.02 as follows:

Related Party. Any person or organization satisfying the criteria for a Related Party published by the Financial Accounting Standards Board in Statement of Financial Accounting Standards No. 57 (FASB 57).

OSD has identified a number of examples that would satisfy the definition of a related party according to FASB 57. For example, OSD's, UFR Audit and Preparation Manual provides a section on guidance pertaining to related parties. This section identifies a related party as:

Another organization that does business with the provider when a family member of management or of a board member of the provider is a member of the management or is a board member of the other organization.

FASB 57 defines Management as follows:

Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

Contrary to these requirements, we found several instances where BCAC failed to report related party transactions as follows:

- The President of BCAC's board of directors was also President of the other two other non-profit organizations; Community Services of Southern Berkshire Inc. (CSSB) and Your Community Shop Inc. (YCS) that conducted business with BCAC. Additionally, the Regional Director of BCAC's south county operations was also the Executive Director of these two other related parties. Although BCAC conducted business with the two other entities, these related party relationships were not disclosed in BCAC's financial statements.
- In BCAC's original Articles of Organization, one of its stated purposes was to serve "as a coordinating and supervising agency for the three existing community action corporations in this county. The following example, among others, of a related party in the social service purchasing context: Action for Opportunity, Inc., Northern Berkshire Community Action, Inc, and Southern Berkshire Community Action, Inc. and in this capacity to act on behalf of said corporations in all matters concerning the Office of Economic Opportunity and any other government agencies interested in carrying on related anti-poverty programs in the area to be served by this corporation". BCAC's relationship with these other community action corporations was subsequently found to be poorly defined. Specifically, in its fiscal year 1995 audited financial statements, BCAC's public accounting firm made the following comments:

Presently, there exists a north and south county community services office to help raise funds and distribute aid in those areas, which receive various financial support from Berkshire Community Action Council, Inc. A clearer picture of the relationship of these offices to the organization needs to be documented and defined by the board.

In response to these comments and in an effort to provide further clarification to the Department of Housing and Community Development (DHCD) over the roll of the various agencies, BCAC clarified the relationship between the offices and provided the following explanation to the Director of DHCD's Bureau of Neighborhood Services on November 8, 1996:

The Area Offices are simply intake sites for BCAC. This is no delegate structure. BCAC has, since it incorporated in December 1966, been the Community Action Agency for all of Berkshire County. Reference in the by-laws using the term "Delegate" dates back to 1966...it is clearly an obsolete term that refers to the area intake/outreach offices. All said references in the by-laws will be changed.

On June 24, 1997, BCAC's former Executive Director reported to the Board of Directors that "the by-laws had been updated after extensive perusal."

Contrary to the corrective action measures that BCAC reported it took to DHCD, the Southern Berkshire branch of BCAC known as Community Services of Southern Berkshire, Inc. (CSSB) and Your Community Shop, Inc. (YCS) operated independently of BCAC as separate corporations, with their own accounting records and report filings. YCS grew out of CSSB and was created as a separate corporation to operate a "thrift shop" which sold used household and clothing items. On the outside of the building that housed these three corporations, there was no mention of BCAC being located there. None of these related party relationships were disclosed in BCAC's financial statements.

- Our audit testing of rent expenses paid by BCAC noted that there was no written rental agreement for the Southern Berkshire division of BCAC. Instead, we were presented with a memorandum of agreement between BCAC and YCS. This agreement was signed on February 10, 1997 and provided for BCAC to pay rent annually of \$10,432 on 2,320 square feet of space and the remaining 1,000 square feet of space was donated by the owner of the building to YCS. This was the same annual rent BCAC was paying before entering into the memorandum of agreement with YCS. Our inspection of the rental space noted that the area occupied by BCAC consisted of a 700 square foot area in back of the building off the alleyway and 1620 square foot of basement storage space. Yet, the space in the building purportedly donated by the landlord to YCS consisted a 1000 square foot storefront. This agreement also required BCAC to pay annually an estimated \$2,056 for electricity and rubbish removal in exchange for YCS providing free clothing and household items for low income families referred by BCAC. We asked to see the lease that either YCS or CSSB would have signed with the landlord to see if that agreement also stipulated that the space YCS was using was to be rent free. We were told that neither YCS nor CSSB had a written lease with the landlord and we were not provided any other documentation to show that the landlord expected this space to be rent-free for YCS. Also, BCAC officials could not provide

any data relative to account for the cost benefit of it paying for the utilities in exchange for getting its clients used clothing and household goods from YCS.

- We noted that BCAC personnel assigned to the BCAC Southern Berkshire office were also doing occasional work for YCS while on BCAC time. Additionally, one employee, the Southern Berkshire area director, was paid \$150 per month by YCS. We made inquiries of BCAC administrators, but they were unable to determine what the BCAC area director was being paid to do for the related party. However we did come across some correspondence that identified the Southern Berkshire area director as the executive director of CSSB. We reviewed the area director's job description and found nothing to indicate that that position had any reporting responsibility to CSSB. We also reviewed time records of Southern Berkshire employees and noted that these records did not reflect the time spent working on YCS activities. Therefore we were unable to determine the dollar impact to BCAC of this employee sharing arrangement.
- BCAC held a fundraiser called "The Taste of the Berkshires" (The Taste). The net proceeds from the fundraiser were used by BCAC to help the needy residents of Southern Berkshire County facing emergency situations. BCAC officials did not report the financial activity of this fundraiser on its financial statements, because they thought that it was being conducted by another organization. We obtained reports filed by the related party and noted that the fundraiser was reported on their financial statements, however the bank account established for the fundraiser used the BCAC name and taxpayer identification number and BCAC personnel did work for planning the fundraiser while on BCAC time. Over two years, this event generated approximately \$38,000 and had approximately \$32,000 in expenses. Also, as of September 30, 1997, the bank statement balance of approximately \$10,000 was not reflected on BCAC's financial statements as an asset.

During our audit, BCAC officials admitted that there were unusual relationships between the BCAC's Southern Berkshire division and the related parties and indicated they would study the matter in an effort to try to obtain a better separation of the identities of the organizations.

Recommendation: BCAC should review the relationships BCAC has with its related parties, properly disclose all related-party transactions, and cease any inappropriate related party relationships in order to comply with OSD regulations and accounting standards requiring disclosure of related parties.

Auditee's Response: In response, BCAC officials stated:

We agree that there was considerable confusion and a cloudy picture of the relationship with the northern and southern community services offices. The previous administration had made several attempts to define these relationships with little success.

BCAC has purchased a building and will move the Central Berkshire County operation to the new location during the 1st quarter of 2000.

During 2000 it is BCAC's plan to reorganize the northern and southern intake/outreach offices.

The northern office will be an intake/outreach site for the LIHEAP program (fuel assistance). Other services currently provided would be a collaborative effort with other human services agencies located within the 85 Main Street building. This action will cause a new lease agreement arrangement with the building owners. The southern office will relocate to a community center (consisting of human services organizations) that will offer "one stop shopping" to the low-income population. This process will start at the first meeting of BCAC's "south county advisory board". This action will terminate the current agreement. It is BCAC's plan to facilitate these changes during the current fiscal year FY 2000.

As part of the current FY99 audit, the bank account established for "The Taste of the Berkshires" will be reflected on BCAC's financial statements.

During the current fiscal year the Southern Berkshire Area Directors stipend for supervising employees in "Your Community Store" will be terminated or contracted through BCAC.

Auditor's Reply: Based on its response, BCAC is taking measures to address our concerns relative to its related party relationships. However, we again recommend that all related party relationships be properly disclosed in its UFR's and that all related party transactions be conducted in accordance with OSD regulations.

3. Unallowable and Undocumented Loans Totaling \$10,541 Provided to BCAC's Former Executive Director

Our review of BCAC's payroll records noted that between the period December 1994 and February 1997 BCAC's former Executive Director received \$10,541 in loans from the agency. BCAC's Board President considered the additional payments made to the former Executive Director as vacation advances. However, since the former Executive Director received her normal week's pay without interruption and these advances were not repaid during the subsequent week's payroll, these advances were, in fact, loans given to the former Executive Director. As of September 30, 1998 BCAC's financial records indicated that \$4,039 of these loans to the former Executive Director remained outstanding. Furthermore, the loans were not recorded as a receivable in BCAC's financial records thereby increasing the likelihood of the loans going uncollected. According to state regulations, fringe benefits such as these loans that are not part of an established policy of the agency are unallowable and non-reimbursable under state contracts.

The OSD has established regulations that define what are allowable and unallowable expenses under state contracts. In this regard, 808 CMR 1.05 stipulates that funds received by the provider from the purchasing agencies may only be used for operating costs. Subparts 9 and 15 of this CMR provides further guidance in defining types of non reimbursable costs including:

[9] Certain Fringe Benefits. Fringe benefits determined to be excessive in light of salary levels and benefits of other comparable providers and fringe benefits to the extent that they are not available to all employees under an established policy of the provider.

[15] Non-Program Expenses. Expenses of the provider which are not directly related to the social service program purposes of the provider.

The OSD also stated in the UFR Auditor's Compliance Supplement that costs "are not reimbursable if they are not ordinary and necessary for the delivery of what the Commonwealth is buying".

During the period December 24, 1994 to September 30, 1997, BCAC's former Executive Director was provided agency funds totaling \$10,541 in addition to her salary. These funds were paid through BCAC's automated payroll system, which allocated the costs to the BCAC's various programs. The table below summarizes the funds provided to the former Executive Director:

Summary of Funds Given to the Former Executive Director
Three Fiscal Years Ending September 30, 1997

<u>Programs Charged</u>	<u>Total</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
CSBG	\$ 7,087	\$1,972	\$3,427	\$1,688
DOE WAP	706	161	363	182
Donations Shelter	63	46	17	-
Fuel LIHEAP	1,411	321	727	363
HEATWAP	228	46	104	78
Transportation	908	207	467	234
HUD	138		87	51
Total	\$10,541	\$2,753	\$5,192	\$2,596

Based on our review, we found that the former Executive Director substantiated her salary advances by completing Requests for Vacation Day forms that were approved by the Board President. These forms requested that payment for vacation time be made in advance. However, we reviewed BCAC's payroll records for the period December 1, 1994 to December 31, 1997 and noted that the former Executive

Director continued to receive her weekly pay without interruption and the so called vacation advances were not adjusted during the subsequent weeks payroll. As such, these advances clearly represent loans rather than advances provided to the agency's former Executive Director. Of the \$10,541 loaned to the former Executive Director over the three fiscal year period, \$6,502 had been returned by way of withholdings from the former Executive Director's weekly paychecks at her convenience leaving an unreimbursed balance of \$4,039 at the completion of audit field work. Because BCAC's policies and procedures do not provide for staff to receive such loans this \$10,541, which was charged to contracts administered by the state, represents an unallowable expense against these contracts. Moreover, we found that BCAC did not record the outstanding balance of the loan as a receivable in its accounting records.

Effective fiscal year 1998, BCAC's policy was revised to eliminate all employee loans from agency funds. Prior to audit commencement and while the audit was in progress, DHCD officials, Bureau of Neighborhood Services and Economic Opportunity [BNSEO] Officials, and BCAC's private accounting firm were working with BCAC's Board of Director's to resolve the matter.

Recommendation: BCAC should continue in its efforts to collect the balance outstanding from its former Executive Director. BCAC, along with guidance from its IPA, should ensure that all financial activity is reflected on its financial records.

Auditee's Response: In response, BCAC Officials stated, in part:

During FY99 the Former Executive Director paid to BCAC the unreimbursed balance of \$4,039.

4. BCAC's Management Practices Requires Improvement

Sound business practices advocate that an organization employ management practices that ensure that agency goals and objectives are met in the most economical and efficient manner; assets are properly safeguarded; and transactions are properly authorized, reported, and recorded. However, BCAC's administrative staff in many cases did not exercise sound business judgment in their management of BCAC. For example, BCAC's administrative staff did not establish an adequate system of internal controls because they: didn't have written lease agreements for the rental of space at three sites that cost

\$34,792 annually to rent; had deficiencies with their accounting system because journal entries were not adequately supported, authorized, or monitored in a timely manner; did not have a formal plan to allocate common costs which amount to approximately \$105,000 annually; and allowed employees, board members, and their relatives to benefit from the FEMA program that BCAC administers. As a result, the Commonwealth cannot be assured that BCAC's assets were properly safeguarded or that BCAC's state-funded program services were provided in the most effective, efficient, and prudent manner. We noted the following specific deficiencies:

- BCAC expended \$34,792 annually to rent space for three sites, however they did not enter into written lease agreements with the landlords. Specifically, BCAC did not have written leases for the following sites:

<u>Location</u>	<u>Annual Rent Paid by BCAC</u>	<u>Use of Property</u>
440 Merrill Road, Pittsfield	\$16,200	Transportation Program and Storage Site
8 Castle Street, Great Barrington	\$10,432	Southern Berkshire County Office
85 Main Street, North Adams	<u>\$ 8,160</u> <u>\$34,792</u>	Northern Berkshire County Office

According to BCAC personnel, the agency did have written leases at one time, but after their expiration, BCAC never entered into new written leases for the sites.

- During our audit period, we found that the agency's accounting system required many adjustments being made by journal entries. An agency's accounting system consists of methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. An effective accounting and compliance system gives adequate consideration to; identifying and recording all valid transactions at initial entry; describing the transaction in sufficient detail to permit proper classification of the transaction for financial reporting; and determining that the transaction is properly authorized and in compliance with laws and regulations prior to initial recording. However, we often found that journal entry adjustments were made to the agency's financial records without adequate supporting documentation, adequate explanations, or descriptions of the necessity for making the adjustment.

Numerous changes to asset, liability, revenue, expense, and capital accounts were made without benefit of authorizations of management other than those personnel directly making the changes. For example, between October 1, 1996 and September 30, 1997 BCAC general ledger reflected numerous adjustments to its five Community Service Block Grant [CSBG] salary accounts. The value of these adjusting entries totaled \$95,623. We selected five of these adjusting entries and requested that BCAC personnel provide us with the supporting documentation. We requested this information on multiple occasions over a four week period. BCAC personnel were unable to provide supporting documentation to support the reasonableness of these entries. These adjustments indicate problems with the agency's initial recordings and monitoring oversight over its fiscal accounting transactions.

- Contrary to state regulations, BCAC has not established a formal written plan for allocating common management and general costs (i.e. costs that benefit more than one function) under its state contracts during fiscal years 1997 and 1998 which totaled \$211,519. Rather, these costs would be charged to programs based on what the budgets would allow. For example, we found that certain administrative salaries were expensed to BCAC's transportation program even though the employees did not serve any direct program function. During the audit period, these allocations increased by over \$19,000 without any supporting documentation. Moreover, when BCAC hired its Deputy Director, his salary – annualized at \$28,682, was expensed totally to this program. The table below summarizes the undocumented administrative wage allocations:

Summary of Administrative Wage Allocated to Transportation Program
Two Fiscal Years Ended September 30, 1998

<u>Position</u>	<u>Annual Salary</u>	<u>Percentage Oct. 96-Feb. 98</u>	<u>Percentage March. 98- Sept. 98</u>	<u>Percentage Increase</u>	<u>Dollar Increase (Annualized)</u>
Deputy Director	\$ 28,682	***	100%	***	***
Executive Secretary	\$ 18,385	2%	30%	28%	\$ 5,169
Executive Director	\$ 50,615	8%	14%	6%	\$ 3,269
Fiscal Manager	\$ 33,250	4%	21%	17%	\$ 5,729
Assistant Accountant	\$ 18,385	2%	30%	28%	<u>\$ 5,169</u> <u>\$19,336</u>

*** Position not filled until May 1998

- We noted that BCAC did not have any written procedures in place governing the use of funds received from the Federal Emergency Management Agency (FEMA) through the Red Cross of Pittsfield. As a result, we could not determine whether funds provided to a few BCAC employees, a Board member, and a Board member's wife were an allowable FEMA expenditure. The FEMA program was used to provide emergency assistance for people who faced utility shutoff or eviction from their dwelling units. During fiscal years 1996 and 1997, we noted that the wife of a board member and a board member (who were landlords) received rental payments from the FEMA program because of their tenant's delinquencies, and on 7 occasions BCAC paid four employees' utility bills to avoid utility shut off. In total, \$1,894 was spent on expenditures such as these. According to the September 29, 1998 Board minutes, BCAC instituted a policy during October 1997, which required Board approval prior to any BCAC staff receiving funds.

Regarding these matters, BCAC officials noted that they are in the process of formalizing space rental agreements and are trying to develop a system to provide further information about journal entry adjustments as well as developing a cost allocation plan. BCAC officials also stated the board must now

approve any employees, board members, or their relatives who receive benefits from BCAC programs. We commend BCAC in taking preliminary steps to address these issues.

Recommendation: In order to ensure that BCAC is managed in the most effective and efficient manner BCAC should:

- Enter into formal written lease agreements with parties that the agency rents space from.
- Ensure that journal entries are documented by adequate backup supporting documentation to ensure that the entry can be explained.
- Establish a formal written allocation plan for allocation indirect costs that is consistent with the state and federal requirements.
- Monitor the system implemented to ensure that benefits given to BCAC employees, board members, and their families be limited and, if necessary, approved by the board.

Auditee's Response: In response, BCAC stated, in part:

The fiscal office is reviewing current procedures to determine the optimum process to ensure the necessity of, and/or the transaction adjustment. This in turn will be monitored by BCAC's independent auditor. BCAC's cost allocation plan will be completed by June of 2000 with implementation October 1, 2000.

During the FY98 audit these salaries were adjusted according to the appropriate budgets based upon time worked in specific areas.

Auditor's Reply: Based on its response, BCAC has taken measures to improve its management practices over its maintenance of accounting records.

